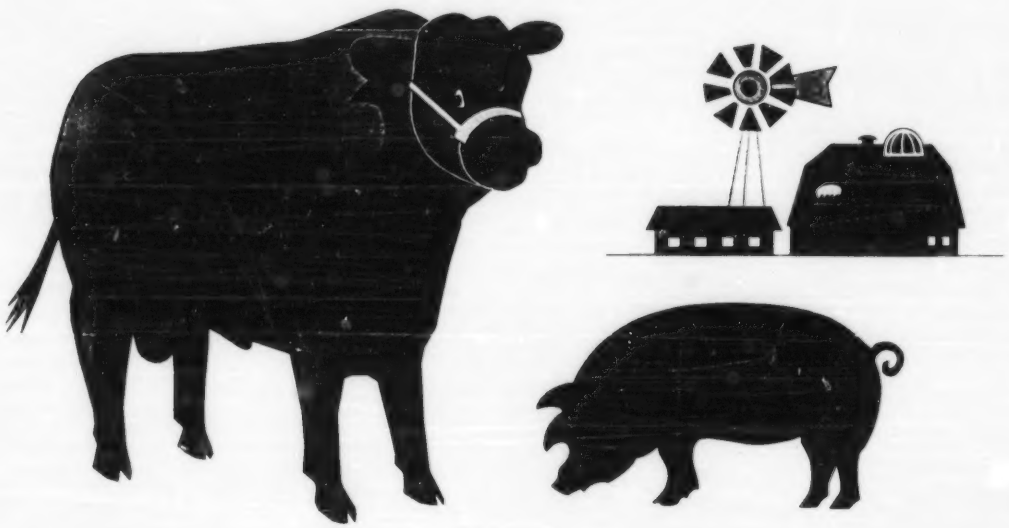
Manitoba
Agriculture

AGRICULTURAL OUTLOOK 99

CATTLE AND HOGS



CATTLE SITUATION AND OUTLOOK, 1998-99

1998 SITUATION:

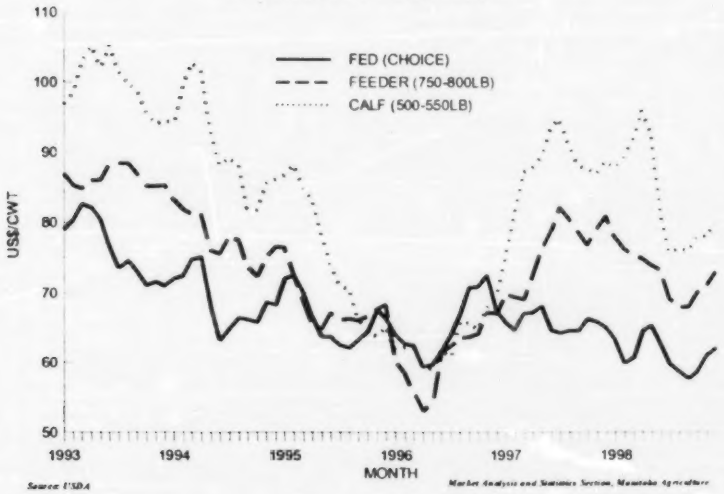
United States

Although the total U.S. cattle inventory and beef breeding herd on July 1, 1998 continued to decline by two percent from mid-year 1997, the positive forecast for U.S. cattle prices in 1998 was not realized. The number of calves on farms in 1998 also fell by two percent to 30.3 million head, the lowest level since 1993.

U.S. BEEF COW INVENTORY
1973 - 1998

Reduction of the beef cattle herd continued to the end of 1998. A 0.5 percent decrease in steer and heifer slaughter and a fall of 9 percent in the beef cow kill, resulting in a two percent decline in 1998 cattle slaughter. However, feedlots tended to retain their animals for longer before selling them in the hope that fed cattle prices would reach projected levels. This raised average carcass weights by almost four percent and increased total U.S beef production for the year by less than one percent above the 1997 level of 25.38 billion lb. Beef production was near record levels and the highest since 1976. The larger domestic supply of beef was augmented by a rise of 140 percent in *net*

U.S. CATTLE PRICES
BY MONTH 1993-1998



imports of beef, particularly in the first and third quarters, when imports averaged 19 percent above 1997.

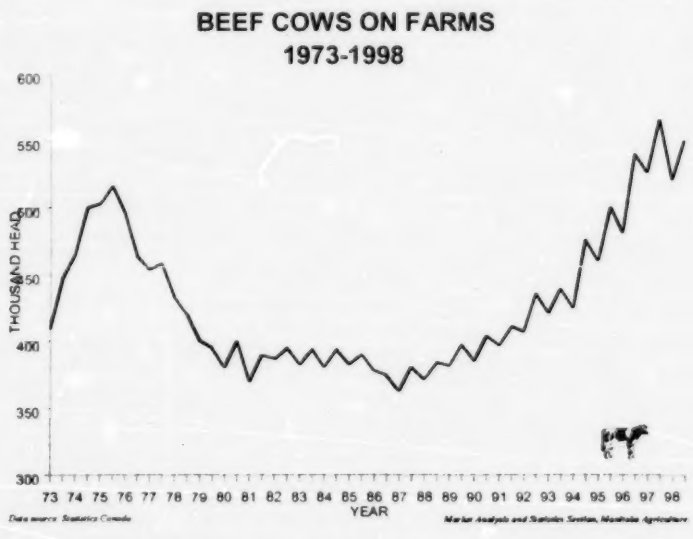
The negative profit margins from August, 1997 to October, 1998 discouraged many feedlot operators from filling their lots to capacity for most of the year, but placements of cattle on feed were slightly above 1997 levels in the spring, 1998. November cattle placements were down by 7 percent, bringing the number of cattle on feed on December 1 to 4 percent below a year earlier, with most of the decrease in the heavier weight groups. Supplies of optimum weight Choice cattle continued to be relatively tight for most of 1998, but there were ample supplies of heavy Choice and Select cattle.

Choice steer prices in 1998 averaged US$61/cwt, 8 percent below 1997. The higher projected prices for fed cattle in spring and summer and lower grain prices encouraged feedlot operators to pay significantly higher prices for replacement cattle for the first half of the year, but when fed cattle prices were lower than expected, feeder prices declined. Overall feeder cattle prices in 1998 averaged about 5 percent below 1997 levels. Prices for lighter feeder calves decreased more than the heavier feeders, in the second half of the year. Reduced forage supplies due to drought in the southern states were of concern.

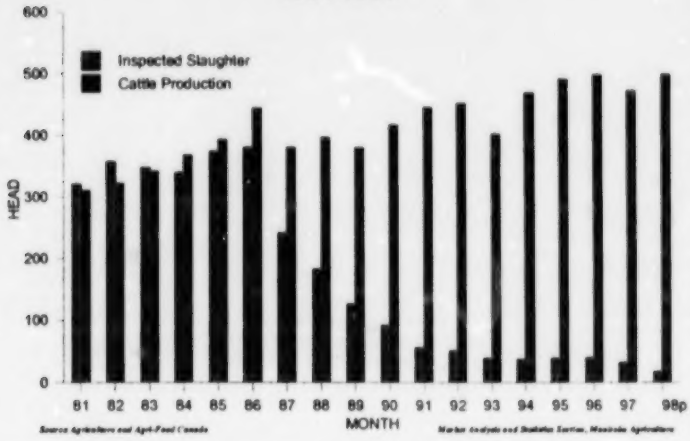
Prices for 700-800 lb feeders fell by 4 percent to average US$72/cwt for the year, while 500-550 lb calf prices decreased by 5 percent to average US$84/cwt. October steer calf (500-550 lb) prices were down to US$75/cwt, 14 percent lower than in 1997. Tight hay supplies, limited wheat pasture due to the drought in the southern plains states and lower grain prices discouraged heifer retention for breeding.

Manitoba

The beef cattle herd expansion, which had occurred over the past ten years apparently suffered a reversal in 1998 according to Statistics Canada, which estimated a decrease of 3 percent in beef cow numbers by mid-year. This was compounded by a 9 percent decrease in the number of replacement heifers. The breeding herd of 635,000 head was down by 3.6 percent from the record 659,000 head in 1997, but was 45 percent greater than the small 1986 herd. Calf numbers fell 3.8 percent from the 1997 level. In fall and winter, 1997-98, despite the relatively high calf prices, the projected profitability



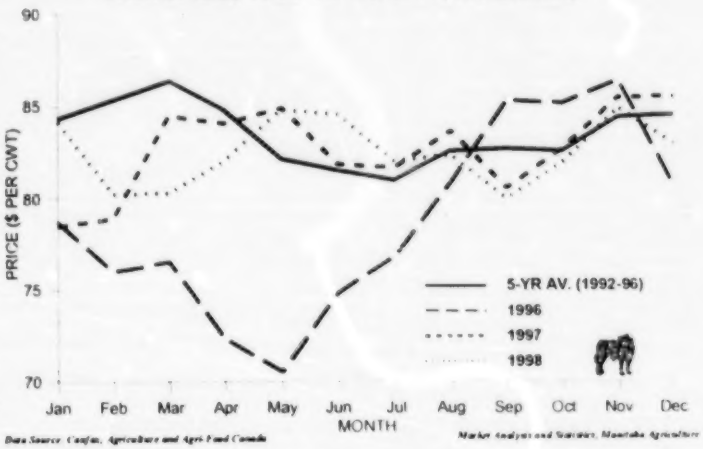
CATTLE PRODUCTION AND SLAUGHTER, MANITOBA
1981-1998



encouraged Manitoba cattle producers to retain more calves for further feeding in the province, either to yearling, short-keep or slaughter weights. In 1998, there were no federally-inspected cattle slaughter plants left in Manitoba, but twenty-nine provincially-inspected plants killed fewer than 15,000 cattle. This was down 53 percent from total 1997 slaughter. About 89,000 fed cattle were exported to the United States in 1998, while about 55,000 head were shipped to other provinces. The out-movement of non-fed slaughter cattle was close to 90,000 head. About 210,000 feeder cattle and calves were sold to other provinces and the U.S. in 1998.

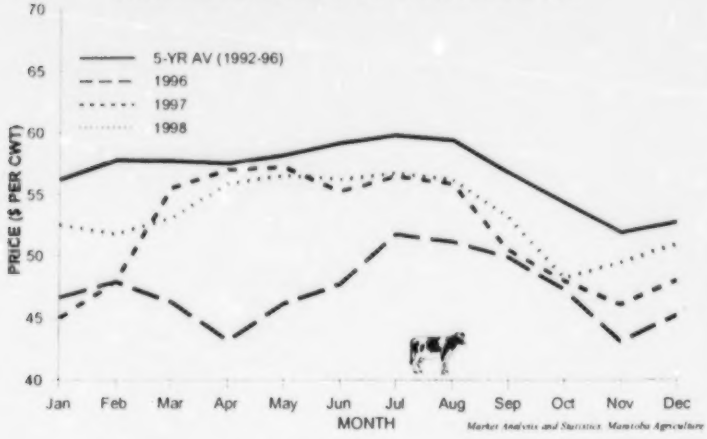
For most of 1998, feeding cattle in the province was less profitable than in 1997, mainly because of higher calf prices at the end of 1997 and in early 1998 and fed cattle prices that were similar to 1997 levels. Although the weaker U.S. market had a direct effect on Manitoba cattle prices, local prices were steady to higher than in 1997 due to the positive effect of a lower-valued Canadian dollar. Average Grade A steer prices were up by one percent from the previous year in the first quarter, 1998, but were unchanged from year earlier levels in the last three quarters of the year. Cattle grading U.S. Choice received premium prices due to the American shortage of optimum-weight Choice cattle. Grade A steer prices averaged close to $83/cwt in 1998, virtually unchanged from 1997, but 8 percent below the 1993 record.

SEASONAL GRADE A STEER PRICES
WINNIPEG, 1996-98 VS 5-YR AVERAGE

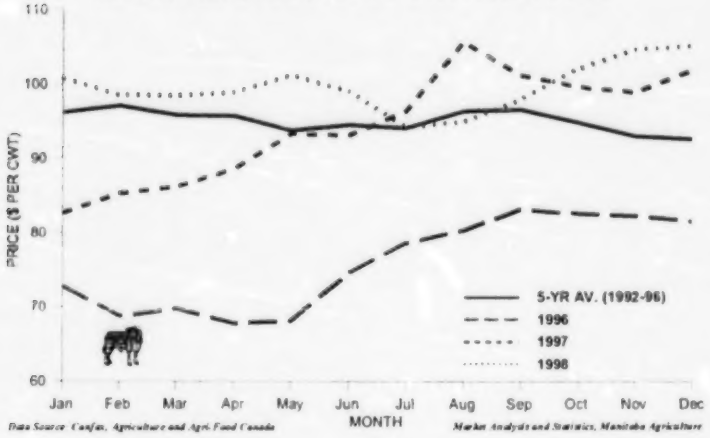


As most of Manitoba's cull cows and bulls were shipped to U.S. plants in 1998, the 6 percent increase in U.S. slaughter cow prices and weaker Canadian dollar had a positive effect on Manitoba prices. D1,2 cow prices peaked in May at highs of $65.75/cwt for grain-fed cows, but average prices dropped to the mid-$50s/cwt by the end of the year. At $53/cwt, the average D1,2 cow price in Winnipeg in 1998 was 2 percent above the 1997 level.

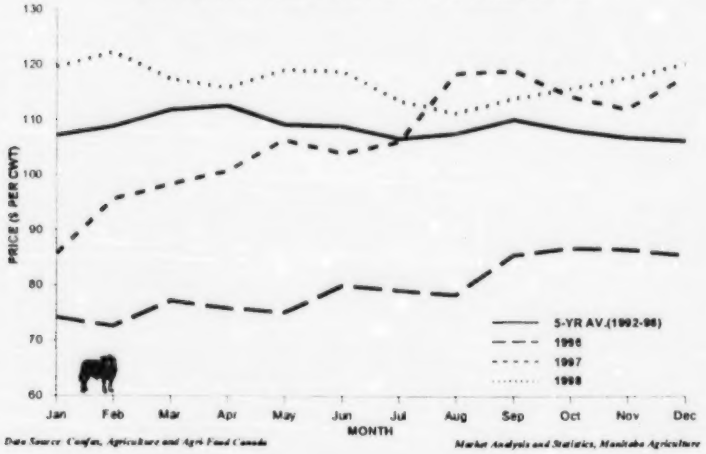
SEASONAL D1,2 COW PRICES
WINNIPEG, 1996-98 VS 5-YR AVERAGE



SEASONAL FEEDER STEER (8-900LB) PRICES
MANITOBA, 1996-98 VS 5-YR AVERAGE



SEASONAL FEEDER CALF (5-600LB) PRICES
MANITOBA, 1996-98 VS 5-YR AVERAGE



Manitoba cow slaughter and exports declined slightly in 1998, which indicated a small rise in the breeding herd. However, this could have been offset to some extent by increased heifer sales in fall, '97 with fewer heifers retained for breeding. Prices for breeding cows and heifers rose in 1998, especially early in the year.

Demand for feeder cattle and calves also improved in early 1998. The forecast of strong U.S. fed cattle prices together with lower feed costs and continuing low interest rates encouraged purchases of feeder cattle and calves causing prices to rise significantly, particularly in the first quarter. For most of the year, cattle feeders paid higher than expected prices for their replacement animals. There continued to be increased local interest in good-quality "grasser-type" calves in spring. In general, the desirable types of steer calves received premium prices, while heifer calves and poorer-quality steer calves were discounted. The simple average price for 500-600lb steer calves in 1998, at about $115/cwt, was 8 percent above 1997 levels, while prices for 800-900lb. feeder cattle averaged over $99/cwt, up 5

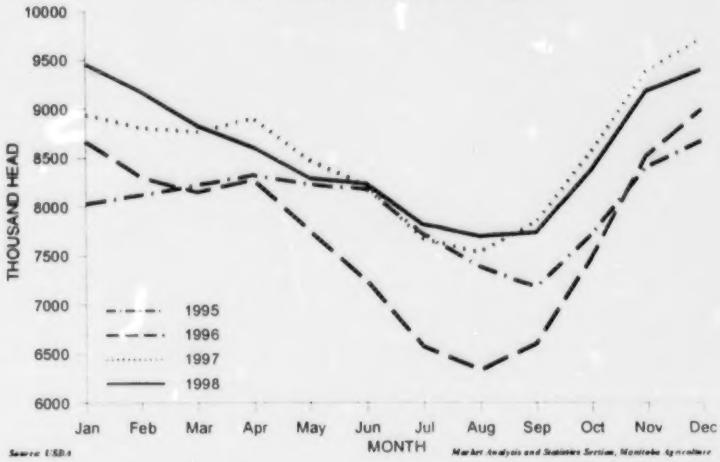
percent from 1997. Prices for calves and feeder cattle in the fall rose counter-seasonally from late summer. Although calf prices were generally profitable, more local cow-calf producers chose to retain their calves in the fall of 1998 for backgrounding or feeding to slaughter weights than in 1997.

1999 OUTLOOK:

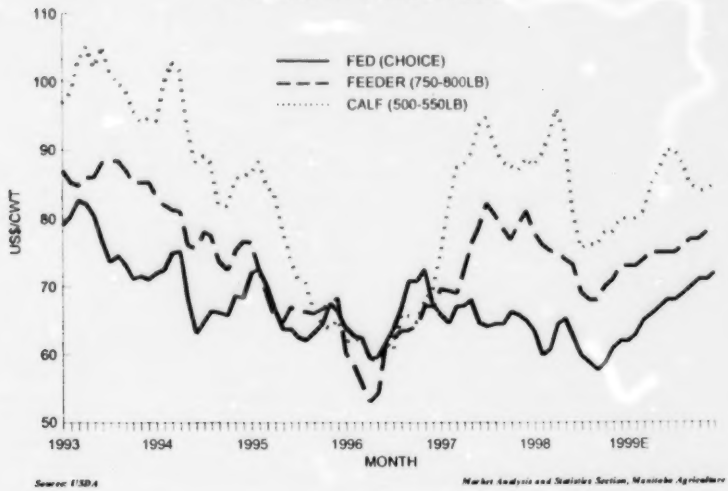
United States

The smaller number of cattle on feed in summer and fall, 1998 is likely to contribute to fewer fed cattle marketings in the first half, 1999, which, combined with reduced cow slaughter is expected to produce less beef than in 1998. Total U.S. beef production for the year could be down by about 6-7 percent to about 24 billion lb. As the beef herd stabilizes or even expands into 2000, U.S. beef production is likely to decline further. The U.S. will continue to be a net importer of beef in 1999, but domestic beef consumption may decrease to below 63 lb (retail wt.) per person as large pork supplies and relatively low retail pork prices could encourage consumption of pork instead of beef.

U.S. CATTLE ON FEED, 7 STATES, 1995-1998
(1,000+ capacity feedlots)



U.S. CATTLE PRICES
BY MONTH 1993-1999



Even though large total meat supplies will continue to pressure cattle and beef prices into 1999, retail prices for beef are expected to be higher than 1998 levels as long as Choice cattle supplies are tight. As packers and feedlots had negative margins in 1998 and bid prices were lower than expected, more over-finished cattle were marketed. Lower carcass weights at the end of

1998 indicate that this is not likely to be repeated in 1999.

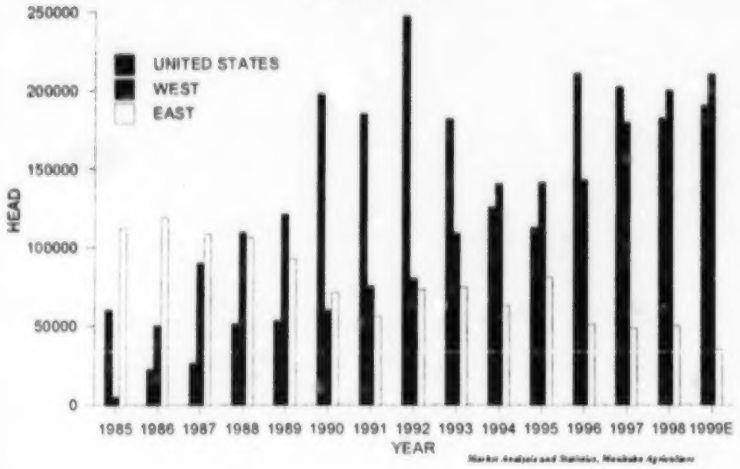
Choice steer prices could average in the US$62-65/cwt range in the first quarter, 1999, rise to US$65-70/cwt in the second quarter and third quarters. The average Choice steer price in 1999 could be in the US$65-70/cwt range, up by 7-15 percent from 1998.

With higher prices for fed cattle and fewer feeder cattle available, feeder cattle and calf prices could be well above year-earlier levels, particularly in the latter half of 1999. depending on how much feed costs change. Feeder steer (700-800 lb) prices are expected to average US$75-80/cwt in 1999, 4-11 percent above the 1998 average. The number of Mexican and Canadian stocker cattle imported into the U.S. is expected to rise to supplement the smaller domestic supply of feeder animals.

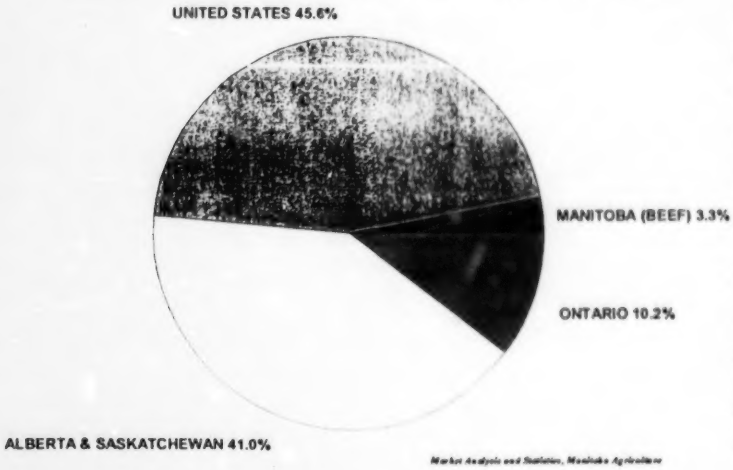
Manitoba

Although there were an estimated four percent fewer calves in Manitoba in 1998, it is expected that more calves were kept for further feeding on farms during winter 1999 because cow-calf operators were hoping to take advantage of profitable projected prices for short-keep feeder cattle and fed cattle in 1999. It is likely that cattle production will increase in 1999, despite the downturn in 1998. Higher breeding stock prices meant fewer producers increased their herds or started new beef cattle operations in early 1998, in spite of relatively high calf prices projected for a few more years. Local feedgrain prices could still be low relative to many other cattle feeding areas due to the higher costs of transportation to out-of-province markets. The value of the Canadian dollar is

ESTIMATED MOVEMENT OF MANITOBA CATTLE 1985-1999



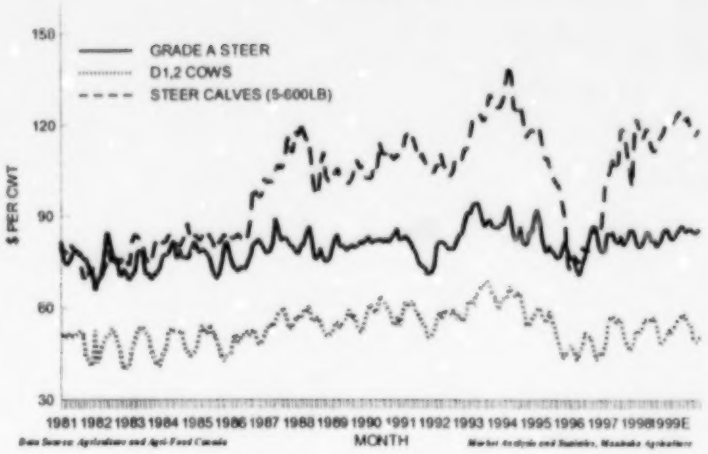
MANITOBA CATTLE*/BEEF: DESTINATION AND PERCENTAGE OF CATTLE* MARKETINGS, 1998



* Cattle slaughtered or shipped from Manitoba converted to carcass equivalent weight

projected to remain below US$0.70 in 1999, and could have a slight negative impact on prices relative to those in 1998. Continued low interest rates will add to the profitability of many cattle operations. (Higher interest and exchange rates will negatively impact prices.)

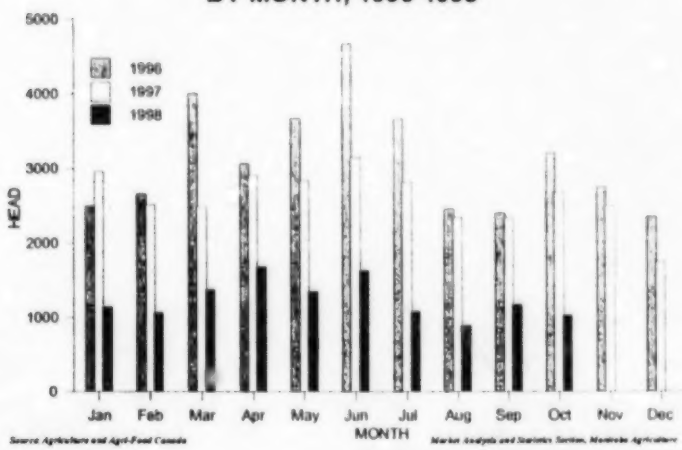
CATTLE PRICES BY MONTH
1981 - 1999



Higher Choice cattle prices in the U.S. in 1999 could have a positive effect on Manitoba prices as many of Manitoba's finished cattle are exported to the United States. A narrower spread between Choice and Select grades will benefit most Grade A cattle marketed in Manitoba. Manitoba Grade A steer prices could average $83-88/cwt in 1999, an increase of 0-6 percent from 1998. Prices could be $82-86/cwt in the first quarter, $84-88/cwt in the second and third quarters, 1999, and $83-87/cwt in the fourth quarter. Manitoba feeder steer (800-900 lb) prices could average $96-101/cwt in the first, second and third quarters, increasing to $98-103/cwt in the fourth quarter if feed costs remain low and fed cattle prices increase. The 1999 average price, at $97-102/cwt, is expected to be up to 3 percent above the 1998 level. Calf prices are expected to be up by 2-6 percent from 1998 levels to average $118-123/cwt in 1999, with the low end of the range possible if feed costs rise slightly. However, a good U.S. corn crop in 1999 could keep feed prices down, which would improve the demand for feeder cattle in the second half of the year.

There will be no federally-inspected slaughter of cattle in Manitoba in 1999 due to the closing of Maple Leaf Meats' slaughter operation at the end of 1997 and no new plants planned. Provincially-inspected slaughter in 1999 could remain at 15,000 head. A rise in U.S. demand for beef, both domestic and export, will have a positive effect on cattle prices, even if local cattle slaughter does decline.

INSPECTED CATTLE SLAUGHTER IN MANITOBA
BY MONTH, 1996-1998



WINNIPEG PRICES FOR GRADE A STEERS, 1996- 1999

	1996	1997	1998	1999E
		$/cwt		
FIRST QUARTER	77.07	80.64	81.57	82-86
SECOND QUARTER	72.58	83.61	83.83	84-88
THIRD QUARTER	81.02	81.96	81.46	84-88
FOURTH QUARTER	84.09	84.59	83.30P	83-87
YEAR	**78.69**	**82.70**	**82.60**	**83-88**

WINNIPEG PRICES FOR D1,2 COWS, 1996 - 1999

	1996	1997	1998	1999E
		$/cwt		
FIRST QUARTER	46.98	49.49	52.48	50-55
SECOND QUARTER	45.71	56.47	56.22	54-59
THIRD QUARTER	50.97	54.28	55.38	51-56
FOURTH QUARTER	45.23	47.38	48.70	46-51
YEAR	**47.22**	**51.91**	**53.00**	**50-55**

MANITOBA PRICES FOR 500-600 LB STEER CALVES, 1996 - 1999

	1996	1997	1998	1999E
		$/cwt		
FIRST QUARTER	74.66	93.17	119.73	116-121
SECOND QUARTER	76.98	103.65	117.77	123-128
THIRD QUARTER	80.97	114.33	112.79	120-125
FOURTH QUARTER	86.17	114.49	113-114	115-120
YEAR	**79.91**	**106.41**	**115-116**	**118-123**

MANITOBA PRICES FOR 800-900 LB FEEDER STEERS, 1996 - 1999

	1996	1997	1998	1999E
		$/cwt		
FIRST QUARTER	70.44	84.71	99.26	96-101
SECOND QUARTER	70.19	91.67	99.68	96-101
THIRD QUARTER	80.69	101.03	95.71	96-101
FOURTH QUARTER	82.08	100.11	102	98-103
YEAR	**75.91**	**94.38**	**99-100**	**97-102**

MANITOBA BEEF CATTLE PRODUCTION AND MARKET DATA, 1989-99

	Slaughter Cattle Mktgs[a] (Man. Origin) (000 hd)	Federal/ Provincial Cattle Slaughter (000 hd)	Average Dressed Weight (lb)	Beef Production (mln. lb)	Average Price of Grade A Steers ($/cwt)	Wpg Average Retail Price of Beef[E] ($/lb)	Canadian Per Capita Consumption of Beef (dressed) (lb)	Average Price of Feeder Steers 800-900 lb ($/cwt)	Average Price of Feeder Calves 5-600 lb ($/cwt)	Average Price of D1,2 Cows ($/cwt)
1989	197.4	125.8	610.0	76.7	80.28	2.93	80.7	86.44	106.13	54.76
1990	189.4	92.3	614.0	56.7	82.33	3.04	78.0	89.24	109.20	59.05
1991	176.8	55.8	619.4	34.6	77.66	3.06	76.5	92.81	110.17	57.05
1992	212.0	50.8	621.0	31.5	81.35	3.02	74.1	92.44	108.50	57.11
1993	194.0	38.6	629.7	24.3	90.34	3.17	70.8	104.78	125.41	63.89
1994	203.0	37.3	650.0	24.2	85.83	3.40	72.1	101.84	126.32	61.53
1995	200.0	38.9	660.0	26.0	82.00	3.35	72.3	89.33	106.88	53.82
1996	275.0	39.8	650.0	26.0	76.69	3.25	71.4	75.91	79.91	47.22
1997	262.0	31.2	655.0	20.4	82.70	3.30	70.5	94.38	106.41	51.91
1998[P]	238.0	15.0	660.0	10.6	82.60	3.30	70.0	99.50	115.50	53.00
1999[E]	260.0	15.0	655.0	9.8	85.00	3.35	71.0	100.00	121.00	53.00

MANITOBA HOG PRODUCTION AND MARKET DATA, 1989-99

	Hog Mktgs[a] (Man. Origin) (000 hd)	Federal/ Provincial Hog Slaughter (000 hd)	Average Carcass (dressed) weight (kg)	Pork Production (dressed) (mln. kg)	Average Index 100 Hog Price ($/100kg)	Wpg Average Retail Price of Pork[E] ($/kg)	Canadian Per Capita Consumption of Pork (dressed) (kg)	Average Hog Index	Average Price of No.1 Sows (dressed) ($/100kg)	Hog-Barley Ratio (Wpg)
1989	2,177.7	1,898.2	78.1	148.2	130.00	4.65	28.6	105.0	84.00	22.25
1990	1,956.6	1,874.8	78.5	147.2	156.84	5.07	26.0	105.5	123.00	32.55
1991	2,092.1	1,967.6	80.3	158.0	137.96	4.95	26.5	105.7	97.00	36.71
1992	2,280.0	2,092.0	80.1	167.6	126.30	4.72	28.2	106.1	97.00	31.31
1993	2,305.0	1,856.3	81.5	151.3	150.00	5.60	27.4	107.0	113.00	39.94
1994	2,383.0	2,021.6	82.6	167.0	139.00	5.30	28.2	108.1	98.00	31.28
1995	2,834.0	2,000.7	82.3	164.0	146.00	5.30	27.5	108.4	100.03	22.61
1996	3,105.0	1,938.0	81.9	160.0	183.15	6.00	25.7	108.9	142.40	22.24
1997	3,455.0	2,075.8	84.0	175.0	182.50	6.25	25.2	108.5	150.93	30.26
1998[P]	3,700.0	2,800.0	86.5	242.0	120.57	5.90	26.5	108.8	81.00	23.28
1999[E]	3,850.0	3,400.0	88.0	300.0	130.00	5.80	27.0	108.8	90.00	24.60

SOURCES: Agriculture & Agri-Food Canada, Statistics Canada, Manitoba Pork est, Manitoba Agriculture.

[P] Projection. [E] Estimated. [a] Includes exports

HOG SITUATION AND OUTLOOK, 1998-99

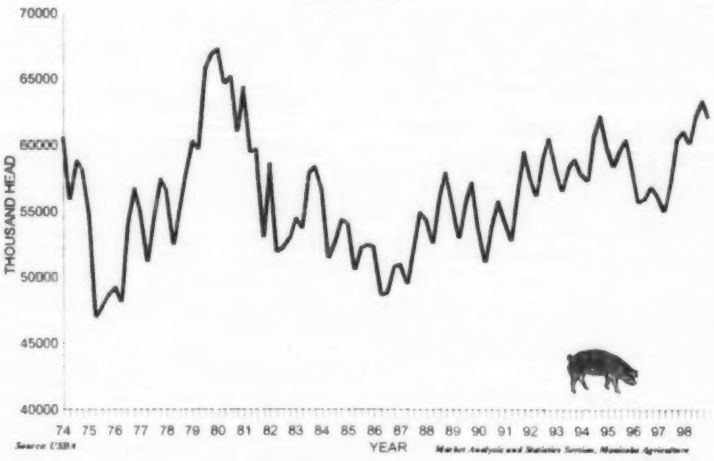
1998 SITUATION:

United States

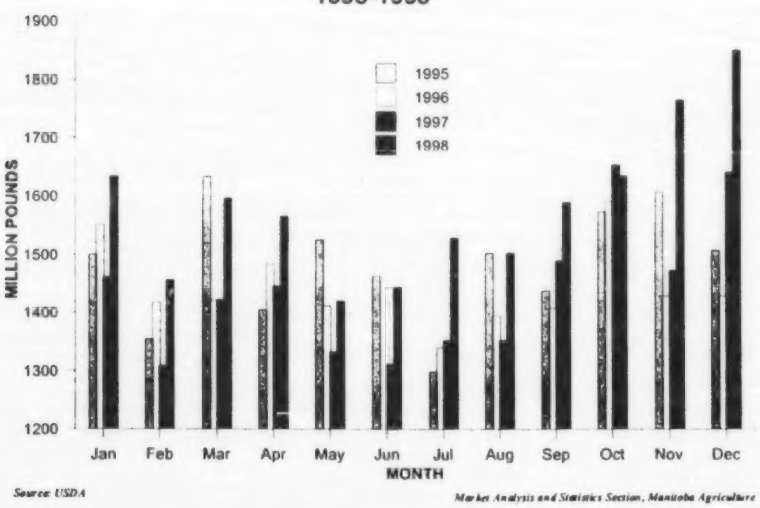
The relatively high hog prices in 1996 - 1997 led U.S. hog producers to increase their herds and the result of this expansion was depressed hog prices in 1998.

On June 1, 1998, total hog and breeding sow numbers respectively were six and one percent above year-earlier levels. By September 1, total hog numbers had risen by eight percent from June, 1998 and were one percent above the relatively high 1994 level. Although the number of sows farrowing in the first half of 1998 was up five percent from 1997, the pig crop was six percent above the 1997 level One effect the trend to large-scale and more-efficient operations has had on the U.S. industry is to raise conception rates, which in turn has meant fewer sows are needed for the breeding herd to produce the same number of pigs. The average number of pigs per litter has continued to increase steadily over the past

U.S. HOGS ON FARMS
1974-1998



U.S. PORK PRODUCTION BY MONTH
1995-1998

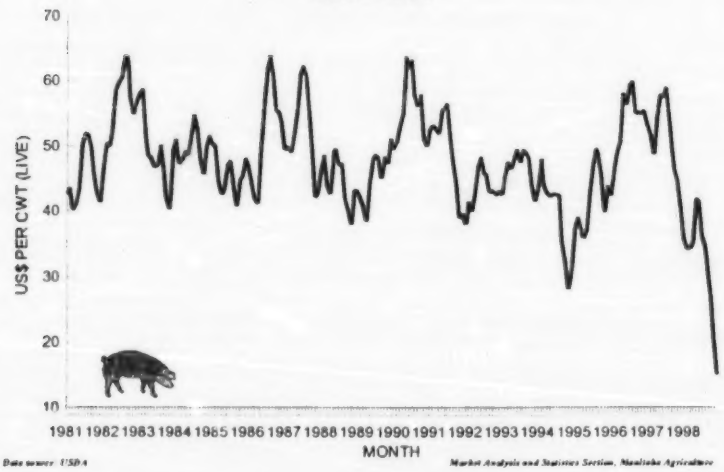


twenty years from 7.04 in 1978 to 8.71 in 1998, a rise of about one percent a year. In the second half of 1998, unprofitable hog prices discouraged hog herd expansion and farrowings declined to three percent above year-earlier levels. The September to November, 1998 pig crop was up by two percent from the year before.

Pork production in the U.S. increased by over nine percent in 1998 due to the nine percent rise in hog slaughter and almost no change in average carcass weights from 1997 levels. This was even higher than expected due to the excessive hog marketings in the fourth quarter, which were partly due to some breeding herd reduction or liquidation. The United States continued to be a net exporter of pork in 1998, with exports mainly going to Japan, Mexico, Russia and Canada. For the first half of the year, exports rose by 38 percent from 1997 levels, while on an annual basis, exports were up by about 20 percent.

Packers responded to the significant increase in hog marketings and smaller overall slaughter capacity by reducing their bids for hogs, particularly in the fourth quarter when prices dropped to lows of US$9/cwt. For most of the fourth quarter prices were in the US$16-26/cwt range. In response to reduced marketings at the end of December, 1998, hog prices had increased to highs of US$18.50/cwt (live) (US$25/cwt lean carcass). In some weeks, packer profits were as high as US$50/hog, more than double the price of a hog.

U.S. HOG PRICES BY MONTH
1981-1998



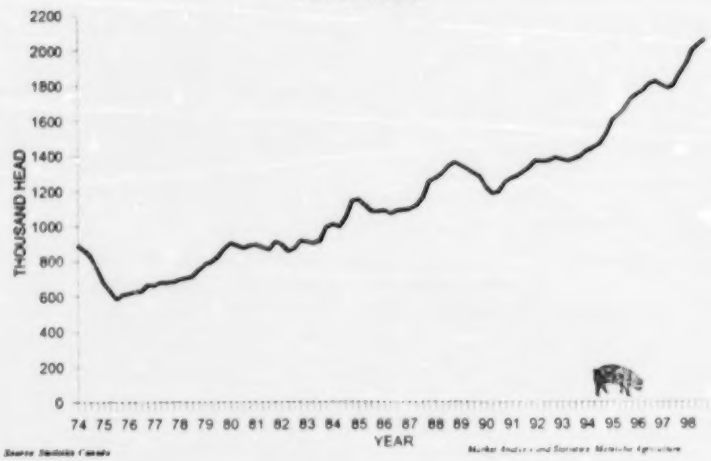
Despite lower feed costs, the overall profitability of hog operations plummetted in 1998, particularly in the fall when at times producers were losing US$40-50/hog. Hog producers sold breeding gilts and sows. Sow slaughter alone rose by an average of 13 percent up to September, increasing by an estimated 18 percent for fall,1998 compared to the year before. The herd reduction and liquidation phase, which normally occurs after a prolonged period of negative returns, did not take place as soon as expected. Some operators had forward contracted their hogs so received higher prices than those

at the auction markets. Any hog operations integrated with packers or even retailers obviously were unconcerned with low prices at the farm level and continued to expand. However, by the end of the year, USDA's December 1, 1998 hog inventory report confirmed herd reduction was taking place with a 4 percent decline in the breeding herd from December 1, 1997. There were few, if any, markets for cull sows in late fall, so if operators had been able to sell their sows, the liquidation could have been even greater.

Hog prices, which rose from the low US$30s/cwt (live) at the beginning of the year to average in the low US$40s/cwt in May and June, declined to the mid to low US$30s/cwt until October, when prices averaged US$26/cwt, and then plunged as low as US$9/cwt in mid-December. Hog prices averaged close to US$32/cwt in 1998, down by about 38 percent from the 1997 level.

Manitoba

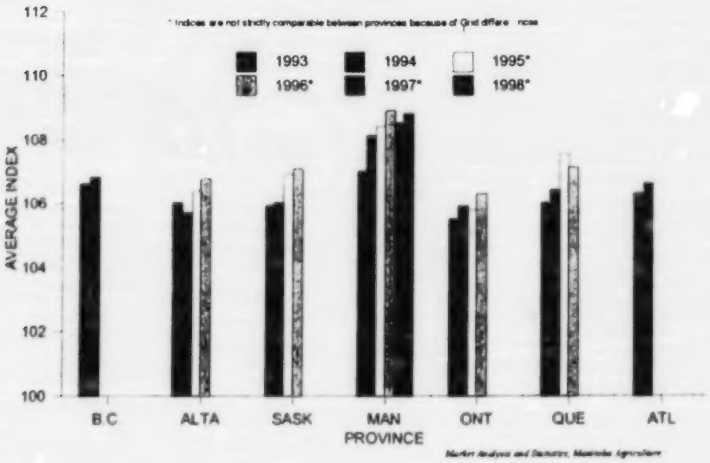
HOGS ON FARMS BY QUARTER
1974-1998



Local hog producers continued to expand their breeding herds by 5 percent to a record 211,000 sows and 10,300 boars on October 1, 1998. There were about 3.7-3.8 million hogs marketed in the province in 1998, of which over 1.6 million head, including about 0.8 million weanlings and feeder pigs, were exported to the U.S. and 17,000 head shipped to Ontario. About 600,000 slaughter hogs were brought in from Alberta and Saskatchewan to be killed at Manitoba plants in 1998. Manitoba-origin hogs killed in Canada remained at close to 2.2 million head, while federal and provincial inspected slaughter in the province rose by over 34 percent to about 2.8 million head. The closure of Jack Forgan Meats in early May did not appear to affect slaughter levels in the province. The plant reopened as Best Brand Meats in October to supply the Schneider's pork processing plant in Winnipeg. For most of the year, weekly hog slaughter in the province was over 53,000 head, reaching a record of 62,000 head in mid-December. Many of the slaughter hogs and weanlings exported to the United

ANNUAL AVERAGE HOG INDEX BY PROVINCE

1993-1998



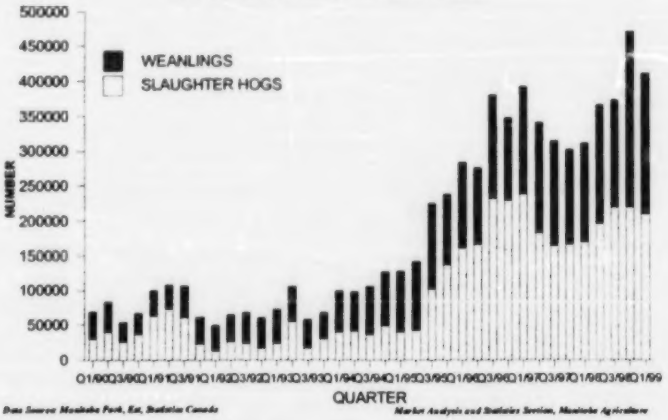
States, and to a much lesser extent Ontario, potentially were available for slaughter in the province if required.

The average carcass weight of Manitoba hogs continued to increase in 1998 to 86.5 kg. Over two thirds of hogs sold to local processors were in the carcass weight range of 75-89 kg. Packers killed a larger percentage of hogs in heavier weight ranges than in previous years with no price penalty. The average index of close to 108.8, was up slightly from 1997, and continued to be the highest in Canada.

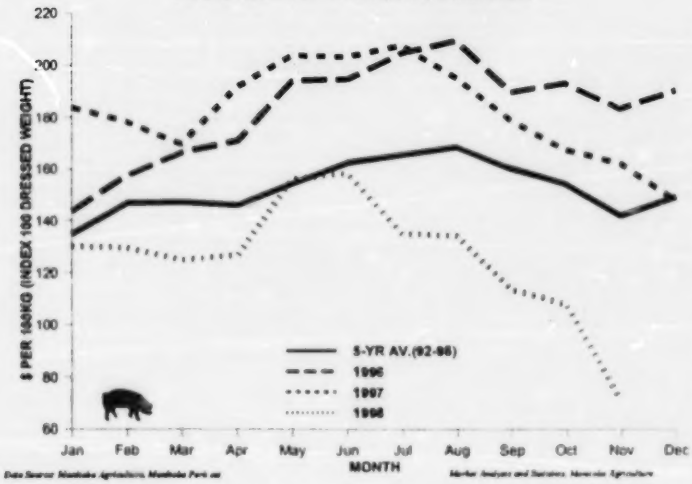
As Manitoba exported over 88 percent of the hogs produced in the province, either live or as pork, markets in the United States and, to a lesser extent, Ontario have had a significant impact on Manitoba hog prices. After July 1, 1996, when a flexible marketing system was introduced in Manitoba, average hog prices were obtained directly from the four major processors and quoted on an Index 100 basis including premiums. A premium of $3/head for hogs in the optimum weight ranges, premiums for specific lean-to-fat ratios and increments for hogs grading over Index 100, enabled producers to receive more for quality animals. Influenced by the weak U.S. market, which was offset partly by a lower-valued Canadian dollar, Manitoba Index 100 hog prices (including premiums), at $128/100kg and $147/100kg for the first and second quarters, 1998, were respectively 28 and 26 percent below year-earlier levels. Hog prices in the third and fourth quarters declined significantly to average close to $128/100kg and

MANITOBA HOG EXPORTS TO USA

BY QUARTER, 1990 - 1999



SEASONAL HOG PRICES
1996-98 VS 5-YR AVERAGE



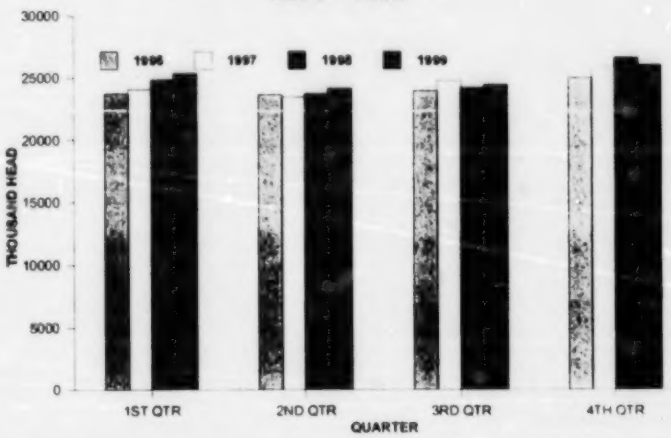
$80/100kg, decreases of 34 and 49 percent from 1997 levels respectively. In mid-December, at $49.24/100kg, average hog prices were at their lowest level since June, 1971. The annual average Index 100 hog price for 1998 at $121/100kg was 34 percent below the 1997 level of $182/100kg.

1999 OUTLOOK:

United States

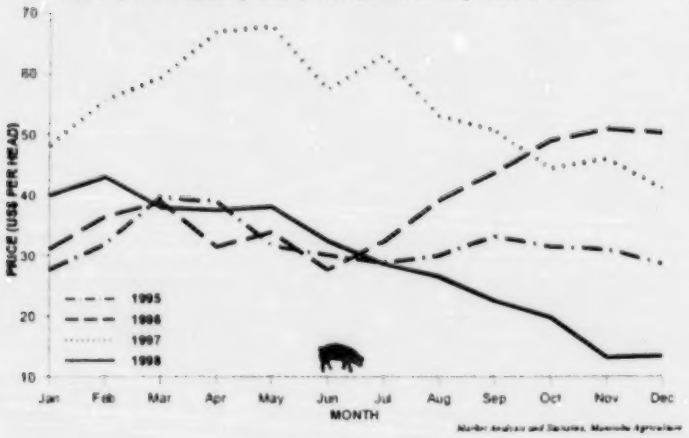
The December 1, 1998 hog inventory report showed total hog numbers were up by two percent from 1997, sows and gilts were down by four percent and market hogs increased by two percent. There were one percent fewer hogs in the 60 lb. and under category and 2-8 percent more in the heavier weight ranges, which should result in a 6-8 percent increase in hog slaughter in the first quarter and 3-4 percent in the second quarter, 1999 when the finished animals come to market. Once weekly hog slaughter declines below 2.1 million head, which is likely in early winter, hog prices are expected to increase fairly sharply. The number of sows farrowed or expected to farrow between December, 1998 and February, 1999 was down by one percent from a year earlier, which when combined with slightly smaller litter sizes, could mean about one percent fewer hogs coming to market in the second

U.S. COMMERCIAL HOG SLAUGHTER
1996 - 1999



half of the year. Overall, even with lighter carcass weights, pork supplies are expected to increase by up to 2 percent in 1999, so the level of export and domestic demand again will be the key to utilising the additional supply of pork and determining hog prices. In mid-December 1998, futures traders expected U.S. hog prices to be US$21/cwt (live) (US$28/cwt lean carcass) in February, 1999, rising in July, 1999 and the second half of the year to over US$37/cwt (live) (US$50/cwt lean carcass). Early year prices will allow positive margins to be locked in for most hog feeding operations, if cheap weanlings were purchased in late summer/fall, 1998, as feed costs are expected to be close to 1998 levels for at least the first half of the year. However, farrow–finish operations could have difficulty locking in a profit. Reduced pork supplies and rising hog prices could result in positive net margins during the last half of 1999 unless feed costs increase accordingly.

SEASONAL WEANLING (50-60LB) PRICES
SIOUX FALLS, SOUTH DAKOTA, 1995-1998



U.S. pork consumption could increase 2-3 percent in 1999 if retail pork prices fall to more reasonable levels than were offered in 1998. Exports of pork to Japan and other Southeast Asian countries are expected to be steady to slightly above year-earlier levels for most of 1999, despite devalued local currencies. There may be greater opportunities to increase exports of lower-valued cuts to China and Mexico.

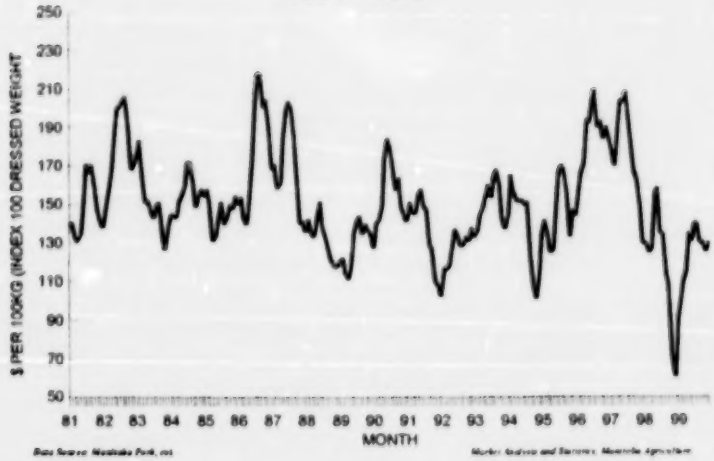
U.S. packers are likely to increase their bids for hogs more than is warranted by the drop in hog marketings at any indication of undersupply so the following estimates could be conservative. Obviously the reverse is possible as evidenced by the severe price discounting in fall, 1998. Average hog prices are likely to be below year-earlier levels for the first half of 1997, but could rise 11-15 percent above 1998 in the third and fourth quarters. Hog prices could average in the US$28-32/cwt range in the first quarter, US$34-38/cwt in the second quarter and US$38-42/cwt in the third and fourth quarters. Average hog prices for 1999 could be in the US$34-38/cwt range, up 6 to 18 percent from 1998.

Manitoba

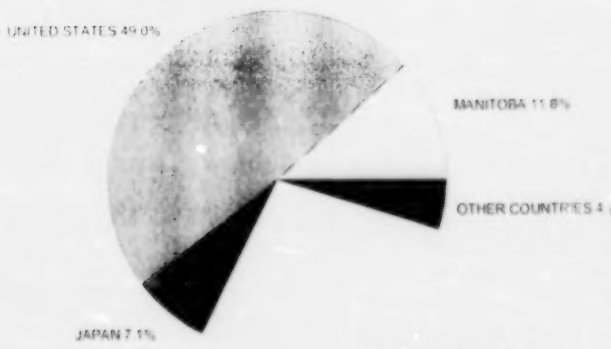
The weaker U.S. hog market for most of 1998 was offset partially by the lower-valued Canadian dollar, which allowed most Manitoba hog operations to be profitable until the fourth quarter, 1998. The trend towards higher-quality, heavier hogs also helped keep hog returns positive during this period and encouraged continued expansion of Manitoba's hog breeding herd. Manitoba hog marketings could rise by 5 percent to over 3.9 million hogs in 1999. The number of hogs slaughtered in Manitoba plants could increase by 20-25 percent to over 3.4 million head due to the opening of the Maple Leaf Meats' Brandon plant in July/August, 1999 and the expansion of Springhill Farms' plant at Neepawa. The Best Brand's plant could also increase kill levels if required by Schneiders/Smithfields and there could be more Saturday "kills" in the first half of the year as the number of Maple Leaf Meats' contracted hogs increases in anticipation of the new plant opening. Weanling exports may decrease in 1999 if relatively lower feed costs and relatively higher hog prices in Manitoba encourage local feeder-finishers to pay more for weanlings than U.S. buyers would. As in 1998, there will be few Manitoba-origin hogs slaughtered at plants in other provinces in 1999. Hogs will continue to be brought in from Alberta and Saskatchewan to meet the

HOG SLAUGHTER
1981-1999

HOG PRICES BY MONTH
1981 - 1999



MANITOBA HOGS*/PORK: DESTINATION AND PERCENTAGE OF HOG* MARKETINGS, 1998



* Converted to retail equivalent

needs of Manitoba slaughter plants.

The two major factors, which will continue to influence Manitoba hog prices, are the price of hogs in the United States and the Canadian-U.S. exchange rate. The dollar is expected to rise to the US$0.67-0.70 range in 1999, up slightly from 1998. A higher-valued dollar would result in lower Canadian hog prices, as long as Manitoba hog prices continue to be influenced by the U.S. market. Increased domestic packer competition for available Manitoba hog supplies is likely to have a positive effect on hog prices in 1999. The need for high-quality, heavier hogs, particularly to supply pork to expanding export markets, will continue to encourage local packers to pay price premiums, supplements and bonuses.

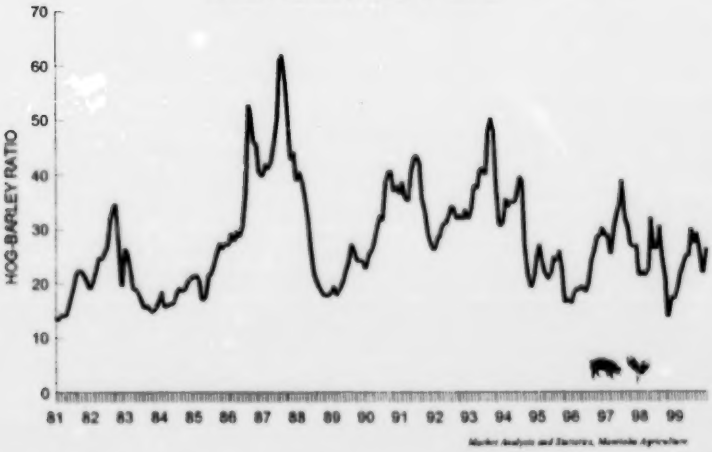
With U.S. hog prices projected in the US$34-38/cwt (live) range, Manitoba Index 100 hog prices (including all premiums) could average $118-$128/100kg or $54-58/cwt (dressed) for 1999. First quarter prices could be in the $100-110/100kg ($45-50/cwt) range, second quarter prices could be up slightly to $115-125/100kg ($52-57/cwt) with prices increasing to $130-140/100kg ($59-64/cwt) in the third and fourth quarters.

MANITOBA PRICES FOR INDEX 100 HOGS, 1996 – 1999

	1996	1997	1998*	1999E*
		$/100kg		
FIRST QUARTER	156	177	128	100-110
SECOND QUARTER	185	199	147	115-125
THIRD QUARTER	201	194	128	130-140
FOURTH QUARTER	189	158	80	130-140
YEAR	**183**	**182**	**121**	**118-128**

P - preliminary E - estimate * includes average premiums

CYCLICAL CHANGES IN THE HOG-BARLEY RATIO
MANITOBA, 1981 - 1999



The hog-barley ratio is the number of bushels of No.1 feed barley equal in value to 100 pounds of Index 100 live hog, with the barley and the hogs priced in Winnipeg. If the hog-barley ratio is any indication of profitability in the hog sector, then it appears that feeding barley to hogs in 1998 on average, was much less profitable than in 1997. However, with lower feed costs in 1998 and low weanling prices, particularly in late 1998, producers who purchased weanlings later in the year should be able to profit from feeding hogs. In 1999, profits from feeding hogs could be lower than in 1998 in the first half of the year, but are expected to improve as the year progresses.

December, 1998

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